

## Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 LONDON 01290 01 OF 03 281400Z

47 40

ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

USIA-06 /092 W

----- 064044

R 281348Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7673

INFO AMEMBASSY DUBLIN

AMEMBASSY OSLO

USMISSION OECD PARIS

CONFIDENTIAL SECTION 01 OF 03 LONDON 01290

DEPT PASS TREASURY

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: PETROLEUM REVENUE TAX: PAYMASTER GENERAL DELL  
STATEMENT ON INDUSTRY CONSULTATIONS

BEGIN UNCLASSIFIED

1. ON JANUARY 16 PAYMASTER GENERAL DELL MADE A STATEMENT  
TO HOUSE OF COMMONS COMMITTEE ON OIL TAXATION BILL IN  
WHICH HE REFERRED TO HMG'S INTENTION TO MAKE SUITABLE  
PROVISION FOR MARGINAL FIELDS AND TO ITS FURTHER CON-  
SIDERATION OF RATE OF PETROLEUM REVENUE TAX (PRT) AND  
TREATMENT OF NATURAL GAS. HE ALSO DESCRIBED CERTAIN  
AMENDMENTS WHICH GOVERNMENT PROPOSES TO BILL IN LIGHT OF  
CONSULTATIONS WITH INDUSTRY.

2. DELL NOTED HMG INTENDS THAT PROVISION BE MADE FOR  
AFFORDING DISCRETIONARY AND NON-DISCRETIONARY ASSISTANCE  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 02 LONDON 01290 01 OF 03 281400Z

TO DEVELOPMENT OF MARGINAL FIELDS. AS TO DISCRETIONARY  
METHOD, IT WILL BE PROPOSED, HOPEFULLY SIMPLY AS A FALL-

BACK, THAT SECSTATE FOR ENERGY SHOULD HAVE POWER, WITH CONSENT OF TREASURY, TO DEFER, WAIVE OR REFUND ROYALTIES IN WHOLE OR IN PART. WHILE SUCH REFUNDS WILL BE FREE OF PRT, WHETHER OR NOT THEY SHOULD BE FREE OF CORPORATION TAX AS WELL IS STILL BEING CONSIDERED. CRITERIA WILL BE SPECIFIED FOR GRANT OF SUCH ASSISTANCE.

3. WITH RESPECT TO NON-DISCRETIONARY METHOD OF ASSISTANCE FOR MARGINAL FIELDS, DELL SAID DECISION NOT YET TAKEN AS TO HOW PROVISION WILL BE MADE WITHIN STRUCTURE OF PRT. HE NOTED INDUSTRY HAS MADE NUMBER OF PROPOSALS AND LISTED MAIN ONES AS: (A) A LOWER PRT RATE FOR MARGINAL FIELDS, (B) PRT SHOULD BE A GRADUATED TAX, PERHAPS ON PROFIT PER BARREL, (C) THERE SHOULD BE INCREASED UPLIFT FOR EXPENDITURE, (D) THERE SHOULD BE EXEMPTION OF A FIXED AMOUNT OR PROPORTION OF RECEIPTS FROM A FIELD, (E) THERE SHOULD BE A GUARANTEED MINIMUM RETURN. DELL OBSERVED HMG IS NOW TESTING ALL THESE PROPOSALS AGAINST INFORMATION GIVEN BY COMPANIES AND WILL PUT FORWARD ITS OWN PROPOSALS ON REPORT.

4. ON PRT RATE, DELL SAID THIS IS MOST IMPORTANT DECISION TO BE TAKEN. HMG IS ANALYZING CONSIDERABLE AMOUNT OF INFORMATION SUPPLIED BY COMPANIES AND HOPED ANNOUNCEMENT MIGHT BE MADE BY END OF FEBRUARY OR SOONER IF POSSIBLE.

5. ON GAS, DELL STATED HMG HAD ALWAYS BEEN AWARE THAT BECAUSE OF CONDITIONS OF SALE, IT PRESENTED A SPECIAL PROBLEM. GOVERNMENT CALCULATIONS SEEMED TO SHOW THAT BILL'S PROVISIONS TAKING INTO ACCOUNT ONLY RECEIPTS AFTER NOVEMBER 1974 WOULD BRING ABOUT A SUBSTANTIAL DEFERMENT OF LIABILITY TO TAX ON EXISTING FIELDS, AND THAT IN SOME CASES THERE WOULD BE NO LIABILITY AT ALL. HOWEVER, INDUSTRY HAD ASKED THAT GAS SHOULD BE EXEMPT FROM PRT AND WHILE THAT WOULD GO BEYOND WHAT WAS INTENDED WHEN BILL WAS INTRODUCED, PROPOSAL IS UNDER CONSIDERATION. DELL ADDED THAT ANY PROVISIONS WHICH MIGHT BE MADE FOR

CONFIDENTIAL  
CONFIDENTIAL

PAGE 03 LONDON 01290 01 OF 03 281400Z

CONFIDENTIAL

NNN

CONFIDENTIAL POSS DUPE

PAGE 01 LONDON 01290 02 OF 03 281404Z

47 40  
ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

USIA-06 /092 W  
----- 064091

R 281348Z JAN 75  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 7674  
INFO AMEMBASSY DUBLIN  
AMEMBASSY OSLO  
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 02 OF 03 LONDON 01290

MARGINAL FIELDS ALSO MIGHT BE OF ADDITIONAL ASSISTANCE  
TO EXISTING GAS FIELDS.

6. DELL ALSO ANNOUNCED A NUMBER OF AMENDMENTS ON VARIOUS  
ASPECTS OF OIL TAXATION BILL WHICH HMG HAD TABLED RELATING  
TO VALUATION OF OIL, VALUATION OF STOCK, SEPARATE CLAIMS  
FOR EXPENDITURES BY LICENSES, OPTION TO SPREAD CAPITAL  
EXPENDITURE, EXTENSION OF LIMIT FOR EXPLORATION EXPENDI-  
TURE, EXPENDITURE RELATED TO CLOSING DOWN OF A FIELD AND  
RELAXATION IN RULES FOR ABORTIVE EXPLORATION EXPENDITURE.  
DELL SAID HE HAD AGREED IN PRINCIPLE BUT NOT TABLED DETAILED  
AMENDMENTS RELATING TO EXPENDITURE ON ASSETS AFTER AC-  
QUISITION, INITIAL TREATMENT AND STORAGE, UNRELIEVED LOSS  
ON A FIELD AND SELLING COSTS FOR CRUDE OIL.

7. COPIES OF DELL STATEMENT ARE BEING POUCED TO EB/ORF/  
FSE AND TREASURY. END UNCLASSIFIED  
CONFIDENTIAL  
CONFIDENTIAL

PAGE 02 LONDON 01290 02 OF 03 281404Z

BEGIN CONFIDENTIAL  
8. COMMENT: INDUSTRY OFFICIALS FIND DELL'S STATEMENT  
ONLY MILDLY ENCOURAGING. THEY NOTE DELL AND OTHER HMG  
OFFICIALS HAVE MADE REASSURING PRONOUNCEMENTS BEFORE, AND

THEN COMPLETELY IGNORED INDUSTRY VIEWS IN TAKING DECISION ON MAJOR OFFSHORE POLICY ISSUES. NONETHELESS, IN A PERIOD WHEN SKYROCKETING DEVELOPMENT COSTS AND UNCERTAINTY OVER LIKELY DIRECTION OF GOVERNMENT POLICY HAVE BEGUN TO ADVERSELY AFFECT INVESTMENT CLIMATE, LATEST INDICATION THAT HMG IS STILL WILLING TO CONSIDER CHANGES IN PRT IS WELCOME SIGN. SENIOR HMG OFFICIALS NOW CONCEDE AT LEAST THAT DEVELOPMENT COSTS HAVE BEEN UNDERESTIMATED, THAT EVEN MODERATE SIZE FIELDS COULD BECOME "MARGINAL" UNDER PRESENT PROPOSALS AND THAT REVISED TAX FRAMEWORK MUST ENSURE THEY DO NOT PROVE UNECONOMIC TO DEVELOP.

9. OIL TAXATION BILL IS SCHEDULED TO LEAVE COMMITTEE ON FEBRUARY 4 OR 5. WITHIN TWO WEEKS THEREAFTER, GOVERNMENT SHOULD MAKE KNOWN ON REPORT EXACT NATURE OF PROPOSED AMENDMENTS EMBRACING MARGINAL FIELDS, PRT RATE AND TREATMENT OF GAS. UNLESS REASONABLY FORTHCOMING, CONSERVATIVE OPPOSITION IN PARLIAMENT WITH INDUSTRY SUPPORT IS LIKELY TO STAGE FULL-SCALE, BITTER POLITICAL DEBATE.

10. IN RECENT WEEKS INDUSTRY AT LEAST TEMPORARILY HAS HEALED SPLIT BETWEEN LARGEST COMPANIES POSSESSING PRE- PONDERANCE OF NORTH SEA RESERVES LOCATED IN BIGGEST FIELDS AND REST OF COMPANIES WHO ARE LESS WELL-ENDOWED. UNTIL RECENTLY SMALLER COMPANIES FELT BP, SHELL AND EXXON HAD ADVOCATED FIXED PRT RATE TO DETRIMENT OF MARGINAL FIELDS AND STOOD ALOOF OF UK OFFSHORE OPERATORS ASSOCIATION (UKOOA) EFFORTS ON PRT BECAUSE THEIR FORTIES AND BRENT FIELDS WERE ONLY ONES (BESIDES PIPER GROUP LED BY OCCIDENTAL) WHICH ALLEGEDLY COULD AFFORD IMPOSITION OF HIGH PRT RATE. BIG THREE WERE ACCUSED BY SOME SMALLER COMPANIES OF NOT WANTING TO TARNISH THEIR OWN IMAGE WITH HMG BY FIGHTING PRT TOO HARD OR, LESS CHARITABLY, OF WANTING TO PICK UP THE PIECES ONCE REST OF COMPANIES GAVE UP ON NORTH SEA DEVELOPMENT. THIS LAST ACCUSATION WAS MADE WITH PARTICULAR FORCE AGAINST BP AND, TO A LESSER

CONFIDENTIAL  
CONFIDENTIAL

PAGE 03 LONDON 01290 02 OF 03 281404Z

EXTENT AGAINST SHELL (WITH EXXON AS NON-OPERATING PARTNER OF SHELL GOING ALONG FOR THE RIDE, GIVING QUIET SUPPORT TO BP/SHELL POSITION). IN INTEREST OF INDUSTRY SOLIDARITY BP, SHELL AND EXXON DID JOIN IN LAST SUBMISSION MADE BY

CONFIDENTIAL

NNN

CONFIDENTIAL POSS DUPE

PAGE 01 LONDON 01290 03 OF 03 281404Z

47 40

ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07 INT-05 L-02

NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01 OES-03

SP-02 SS-15 STR-01 TRSE-00 FRB-03 FEA-01 PA-01 PRS-01

USIA-06 /092 W

----- 064166

R 281348Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7675

INFO AMEMBASSY DUBLIN

AMEMBASSY OSLO

USMISSION OECD PARIS

CONFIDENTIAL SECTION 03 OF 03 LONDON 01290

UKOOA TO DELL WHICH EMPHASIZED SITUATION IS SERIOUS AND COMPANIES ARE NOT BLUFFING ABOUT CONSEQUENCES FOR NORTH SEA DEVELOPMENT IF HMG PROCEEDS AS PLANNED.

11. FROM FINANCIAL STANDPOINT, AT LEAST ONE BANK HAS MADE CLEAR TO HMG IT DOES NOT WANT TO LEND ON BASIS OF A PRT THAT WILL CHANGE FOR A GIVEN FIELD. BANK WANTS SECURITY AND THIS MEANS ANY FLEXIBILITY IN PRT SHOULD BE BUILT INTO SPECIFIC RATES APPLIED BASED ON SIZE AND COST OF INDIVIDUAL FIELDS.

12. IT IS STILL AN OPEN QUESTION WHETHER HMG WILL ACCEPT SOME INDUSTRY ESTIMATES THAT FIELDS OF LESS THAN 300 MILLION BARRELS OF RESERVES PER PRODUCTION PLATFORM CANNOT AFFORD ANY PRT AT ALL. LABOR GOVERNMENT SUSPICION THAT OIL COMPANIES ARE SEEKING TO AVOID TAXATION RUNS DEEP. COMPANIES WERE, IN FACT, UNDULY OPTIMISTIC IN EARLY 1970'S

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LONDON 01290 03 OF 03 281404Z

ABOUT NORTH SEA POTENTIAL IN ORDER TO IMPRESS FINANCIAL INSTITUTIONS AND OBTAIN REQUIRED LOANS. WHILE BANKERS

HAVE RECENTLY SHIED AWAY AS RESULT OF ESCALATING COSTS,  
UNCERTAIN GOVERNMENT POLICY AND POORER GEOLOGICAL PROS-  
PECTS, HMG IS PERHAPS JUST BEGINNING TO ACCEPT WHAT IN-  
DUSTRY AND BANKERS NOW CONSIDER TO BE REALISTIC APPRAISAL  
OF NORTH SEA DEVELOPMENT COSTS AND PROFIT AND TAXATION  
POTENTIAL. SUBSTANTIAL GAP BETWEEN CONFLICTING POINTS  
OF VIEW IS NARROWING BUT A GAP NONTHELESS STILL REMAINS.

SPIERS

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, SPEECHES, TAXES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975LONDON01290  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750031-0195  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750115/aaaaamuq.tel  
**Line Count:** 286  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 19 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <19 MAY 2003 by BoyleJA>; APPROVED <20 MAY 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PETROLEUM REVENUE TAX: PAYMASTER GENERAL DELL STATEMENT ON INDUSTRY CONSULTATIONS  
**TAGS:** ENRG, EFIN, UK, (DELL)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006